

FLAHERTY ADDRESS AT THE BUREAU OF BUSINESS RESEARCH ASSOCIATION,
FLORIDA INTERNATIONAL UNIVERSITY

June 10, 1983 - 8:30 p.m.

LENGTH: 20 - 30 minutes

AUDIENCE: 75 - 100 Bureau of Business Research Association members and
spouses

THEME: "Health Care Financing in South Florida for the '80s"

MAJOR

POINTS:

- o To demonstrate major health care cost trends,
particularly in Florida
- o To describe effects of rising health care costs on
consumers and insurance industry
- o To delineate opposing approaches to the problem of costs
(regulation vs. competition), and their effects on
health care costs and delivery systems
- o To depict BCBSF role in addressing health care cost and
delivery issues
- o To suggest future developments in structure of health
care financing and delivery systems

- PURPOSE:
- o To increase understanding of audience about health care
economics in Florida
 - o To achieve understanding and acceptance of alternatives
open to society in dealing with health care cost and
delivery issues
 - o To present BCBSF as a dedicated, technically competent
organization, in command of the issues
 - o To increase understanding of BCBSF role in Florida
health care financing and delivery systems

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W.E. FLAHERTY ADDRESS AT THE BUREAU OF BUSINESS
RESEARCH ASSOCIATION, FLORIDA INTERNATIONAL UNIVERSITY

SLIDE #1
BCBSF LOGOS

I. INTRODUCTION

- A. My topic tonight -- health care financing during the next decade -- may consume more of my time than any other single issue facing the Plan today. With good reason: it is ultimately an issue of survival for our company, and for Florida consumer, issue of whether will continue to receive adequate, expected health care services.
- B. Already experiencing profound changes in our environment:
 - 1. Cost pressures continue to mount
 - 2. Mood to regulate never stronger
 - 3. Competition never tougher
 - 4. Acceleration of change never greater
- C. As a result of these pressures, no doubt that the health care delivery and financing systems we see in 1990 will be very different from those of 1980. But still some question as to whether our industry will be allowed time to evolve solutions to its own cost and delivery problems -- or whether government intervention will impose an increasingly compromised version of traditional health care services.

SLIDE #2
TOPICS

- o Current Florida health care trends; effects
- o Regulation/competition
- o Future developments

- D. To delineate these opposing viewpoints and set changes in context:

1. First will lay groundwork in present issues facing Florida health care
2. Will then consider some proposed solutions -- by those who would regulate, and by those like ourselves who would allow private market forces and competition to evolve cost-efficient, innovative methods to fund and deliver care.

SLIDE #3
BCBSF PROFILE

- o Community orientation
- o Public accountability
- o Relationship with physicians and providers
- o ~~Not-for-profit~~ status

3. Will be speaking from our own unique position in Florida health care environment:
 1. Community orientation
 2. Public accountability -- Board members unpaid, committed to public service; Board has public majority
 3. Relationship with physicians and providers, past and present
 4. Non-profit status

First the groundwork.

II. HEALTH CARE COSTS

A. Roots of health care cost problem, national level

1. Mid-to-late '50s
 - a. Shortage of hospital beds
 - b. Hill-Burton

c. Major union/management negotiations

- Comprehensive health insurance benefits
- Paid by employer

SLIDE #4

Graph: National health care expenditures, 1955-1990

2. In 1955: expenditures \$18 billion -- 4.4% GNP -- 22% public
3. In 1965: Congress passed Medicare/Medicaid -- expenditures \$42 billion -- 6% GNP -- 21% public
4. By 1970: expenditures \$75 billion -- 7.5% GNP -- 33% public
5. By 1980: expenditures \$249 billion -- 9.5% GNP -- 39% public
6. If current trends continue, expenditures by 1990 will be \$756 billion -- 12% GNP -- 43% public

B. State level

1. Florida health care costs compared to national data, 1981: Florida ranks 18th in nation in terms of total expense per admission (\$2,100) and 16th in terms of expense per patient day (\$301)
2. Florida hospital net revenues (1981) running about seven percent above national average; Florida total expense per admission (1981) running about six percent above national average

C. Dade County

- A. Physician charge levels nearly 26% higher than state average
- B. Hospital net revenues per admission (1981) exceed Florida average by a little over four percent

III. EFFECTS OF RISING HEALTH CARE COSTS

- A. Disproportionate rise in insurance premiums: price x use = cost

SLIDE #5

Bar graph: 1982 increase in total CPI,
health care CPI, U.S. health care expenditures,
BCBSF local group average rate increases

- Example: 1982 percentage change in overall CPI was about six percent rise. National health care CPI, and national health care expenditures, were twice as large -- about 12 percent. Rate of increase in amounts our employer groups pay for health insurance: nearly 30 percent.
- B. Effects on insurers: unable to maintain rates adequate to cover rising health care costs
1. Nationally, health care insurers lost over \$2 billion in 1982
 2. BCBSF
 - a. Profit and loss figures, 1982
 - Earned premium income = \$537 million
 - Operating expenses = \$535 million
 - Underwriting gain = \$1.8 million
 - b. Reserves were \$78 million = 1 3/4 months of claim payments and operating expenses
 - c. BCBSF's unique position: (1) non-profit: does not maintain large reserves, generate large investment income; (2) health care specialist: unable to cross-subsidize; (3) community orientation: difficult to abandon losing markets; (4) prior approval until recently, still feeling effects on rate increase approvals

SLIDE #6
DIII Price and Use Data - State as a Whole

- d. Effects of rising health care costs on individual contracts: recent Dimension III price and use data

SLIDE #7
DIII 1982 Financial Experience

SLIDE #8
Graph: BCBSF average rate increase per year

- e. Effects of rising health care costs on employers' insurance premiums
 - Employers see health care costs rising at rate of 11-12 percent
 - Average BCBSF employer group rate increase in 1982: 20-30 percent
 - Results: extreme employer discontent, lower market share, increased pressure to regulate

C. Role of competition

1. 600+ health insurance competitors in Florida - only one other company (Aetna) has more than 5% market share
2. Fragmented marketplace, highly targeted to specialized groups - no one can influence market
3. Pure economic competition creates highly volatile market: fosters increased pressures to regulate

IV. HISTORY OF REGULATION

The cost of health care, the combined effects of price and utilization, is perceived as being too high and the rate of increase as out of control and unacceptable, thereby negatively affecting the delivery, access and quality of the health care system. Regulation has historically appeared as one solution to cost problem.

SLIDE #9
Federal Legislation

- o 1946 - Hill-Burton
- o 1966 - Comprehensive Health Planning Act
- o 1972 - Social Security Amendments
- o 1973 - Health Maintenance Organization Act

A. National

1. 1946: Hospital Survey and Construction Act (Hill-Burton)
 - Required that each state develop and annually update plan for health facility construction to serve as basis for federal fund allocation
2. 1966: Comprehensive Health Planning Act (PL 89-749)
 - Authorized state and area-wide planning agencies
3. 1972: Social Security Amendments (PL 92-603)
 - Established PSROs
4. 1973: Health Maintenance Organization Act (PL 93-222)
 - Provided for federal grants for HMOs (amended 1976 to make more workable)

SLIDE #10
Federal Legislation (cont'd)

- o 1974 - National Health Planning Act
- o 1976 - Health Professions Educational Assistance Act
- o 1982 - Tax Equity and Fiscal Recovery Act (TEFRA)

5. 1974: National Health Planning and Resources Development Act (PL 93-641)
 - Authorized HSAs

6. 1976: Health Professions Educational Assistance Act
 - Required medical school students receiving federal scholarships to serve specified period in rural and inner-city areas
7. 1982: TEFRA
8. DRGs: example of positive legislative action to encourage innovation and competition
 1. Symptomatic of changing attitudes toward health care financing: differing services broken into separate commodities: prices open to question
 2. Fosters competition and innovation to meet price ceilings

V. RECENT LEGISLATIVE MOVES - STATE LEVEL

SLIDE #11

- o 1979 - Health Care Cost Containment Act
- o 1981 - State Health Policy Task Force
- o 1982 - Governor's Task Force on Competition and Consumer Choice

A. Florida Legislation

1. 1979: Health Care Cost Containment Act (Florida Statutes, Chapter 79-331)
 - Created HCCB
2. 1981: State Health Policy Task Force (Laws of Florida, Chapter 81-133)
 - Buddy McKay Task Force
3. 1982: Governor's Task Force on Competition and Consumer Choice (Laws of Florida, Chapter 82-182)

-- Amended 1983 to expand duties

B. Current legislative session provides ample examples of current mood to regulate

1. Initiatives aimed at increasing DOI powers to regulate hospital and insurance rates
2. Initiatives aimed at mandating coverages and deductibles

-- Example: Coriggio report, State Group (average state employee already pay 40% in out-of-pocket health care expenses; suggests that don't need legislation to mandate co-payments and deductibles)

SLIDE #12
REGULATION

- o Anti-competitive
- o Inefficient
- o Restricts change, innovation

C. Regulatory proposals continue to be made in spite of fact that demonstrably don't work

1. Effects of regulation of health care industry:

- Stifles competition by imposing common denominators on all; chokes innovation and experimentation with delivery of health care services
- Institutionalizes current inefficiencies and provides no incentives to become more efficient
- Hampers industry's ability to respond to changing needs through new programs, new services, new delivery systems, private negotiation

SLIDE #13
Regulation (Cont'd)

- o Encourages higher prices
- o Rations services
- o Breeds further regulation

-- Encourages higher prices through:

- a. Expensive administrative procedures, additional bureaucracy (example: Great Britain: average annual increase in health expenditures, 1969-76, was 18.2% as compared to U.S., 12.5%)
- b. Higher-than-necessary rate increases as industry anticipates imposition of controls

-- Disregards crucial variations among physicians and hospitals, in terms of region, type of services, size and patient mix

-- May ultimately result in rationing of services

-- Ineffective regulation breeds still more regulation

2. Recent example of ineffective state regulation: HSAs

- a. Created additional bureaucratic structure, which was manipulated by local interests

SLIDE #14
Graph: Growth of Florida bed supply
compared to U.S. and Dade County, 1971-81

- b. Was not effective: growth in Florida bed supply, 1971-81: nearly 24 percent (compared to 12 percent decrease nationally); growth in Dade County bed supply: -- percent (figure to come)

c. Can have adverse impact on costs

- Example: Community Hospital of Bunnell (Flagler County). 1981 occupancy rate of under 27 percent; consistently high fixed costs

-- Example: Parkway Regional Medical Center: \$25 million expansion program approved two years ago currently accounts for \$300 per admission additional charges [We realize this is a highly sensitive example, but because it is so clear-cut, offer it as an example that may possibly be camouflaged]

- D. Our own position: allow private market forces to evolve change: through open-ended competition will come responsiveness to marketplace needs and service to community (examples: airline industry, oil industry)

SLIDE #15
Competition

- o Efficiency, innovation
- o Responsiveness to marketplace
- o Cooperative efforts

- E. Already beginning to see positive effects of private market competition, suggesting how the private sector can evolve cost efficient delivery and financing systems during 1980s

Let me describe some of these positive developments, and their role, as we see it, in changing health care delivery structure in '80s.

VI. PRIVATE MARKET ALTERNATIVES

SLIDE #16
Graph: Growth of Membership in Florida
HMOs, 1970-82

A. HMOs

1. Going to be active part of market for next foreseeable future
 - a. Currently 13 HMOs in state; total membership about 200,000 (60 percent growth of membership in five years)

- b. CHP clearly successful
 - c. SFGH: still unproven; confident of eventual success (strong management team, new product development, move into Broward) (Medicare risk contract?)
2. Reasons for our support of HMO concept
- a. More potential for cost-efficient service than any other ADS we currently know of
 - b. Through competition, acts as catalyst for change: hospitals, physician groups, insurers, and others begin to think of new ways to provide health care services
 - c. Competition for BCBSF: need to protect our market share from inroads by other companies with HMOs

SLIDE #17
Preferred Provider Organizations

- o National and State Development
- o BCBSF interest

B. PPOs

- 1. Again, symptomatic of healthy change in public attitudes toward health care: now employers know they can bargain, question prices
- 2. Radical change: not like traditional relationship between BCBS Plans and participating hospitals and physicians: new pressure to accommodate in order to survive
- 3. Example of industry's acceptance of competition as new way of life: Richmond Plan's PPO

4. BCBSF position: we're being approached by both institutional community and physician community. We are actively analyzing extent to which we might become involved in PPO activity.

SLIDE #18
Further Changes

- o Employer coalitions
- o Rise in self-insurance
- o Medicare voucher system
- o Move to overall financial services industry

C. Other symptoms of change

1. Growth of employer coalitions (currently 7 in Florida)
2. Rise in self-insurance
3. Probable Medicare voucher system if Regan re-elected
4. Move to overall financial services industry, rather than differentiated types of service companies
5. Need to accomodate change rapidly and develop long-range strategy if we are to survive increased competition of next ten years

VII. CONCLUSION: COOPERATION; ACTIVE ROLE BY BUSINESS

- A. Subjects we've been discussing tonight -- costs, regulation, the necessity of being free to compete -- are survival issues of greatest importance to us.
- B. Essential for all those who provide, receive, or finance health care services to become knowledgeable about, and active within, health care system

SLIDE #19
Employer Involvement

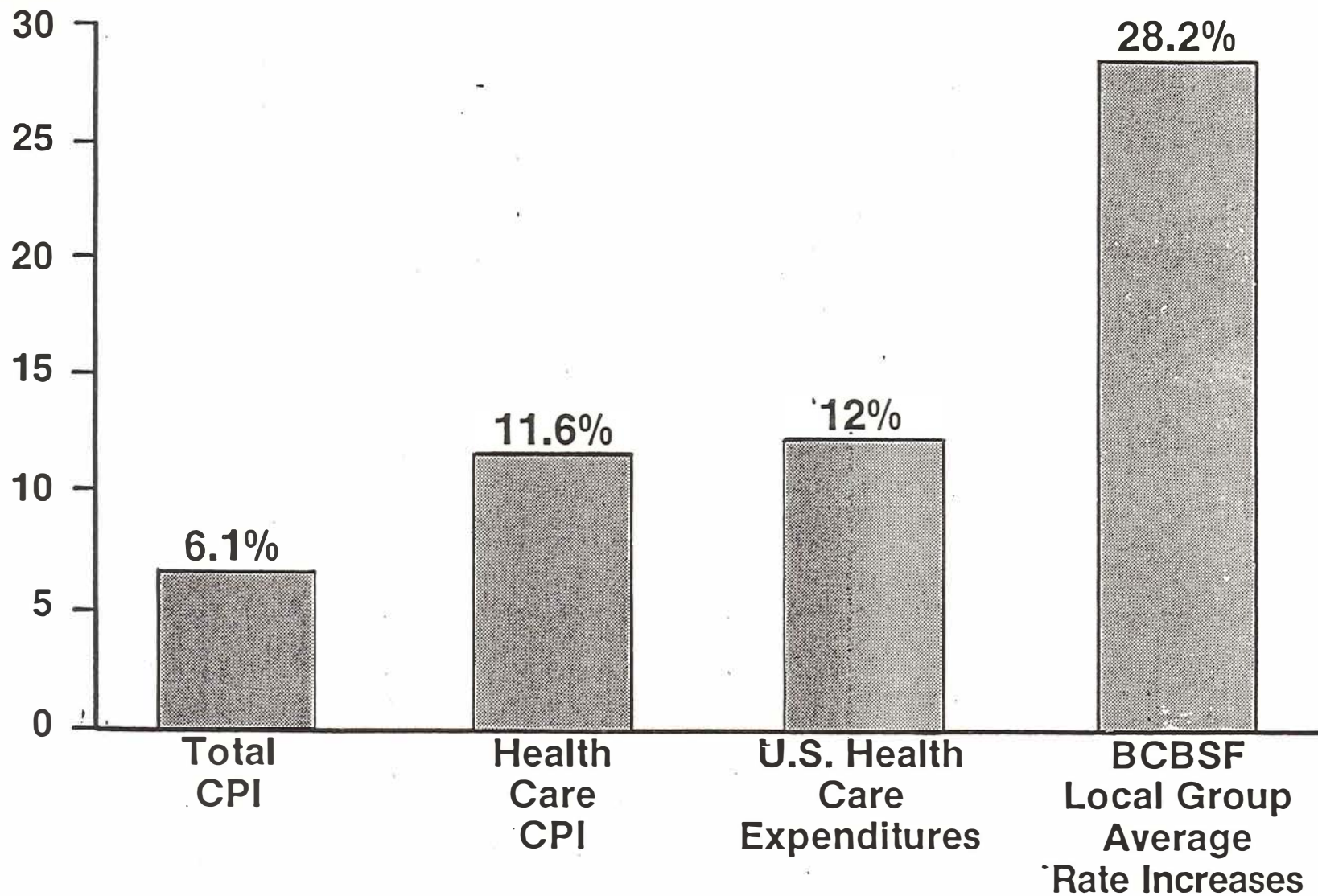
- o Study benefit structures
- o Monitor utilization
- o Health awareness programs
- o Alternative delivery systems
- o Employer health coalitions

-- Some suggestions for businessmen:

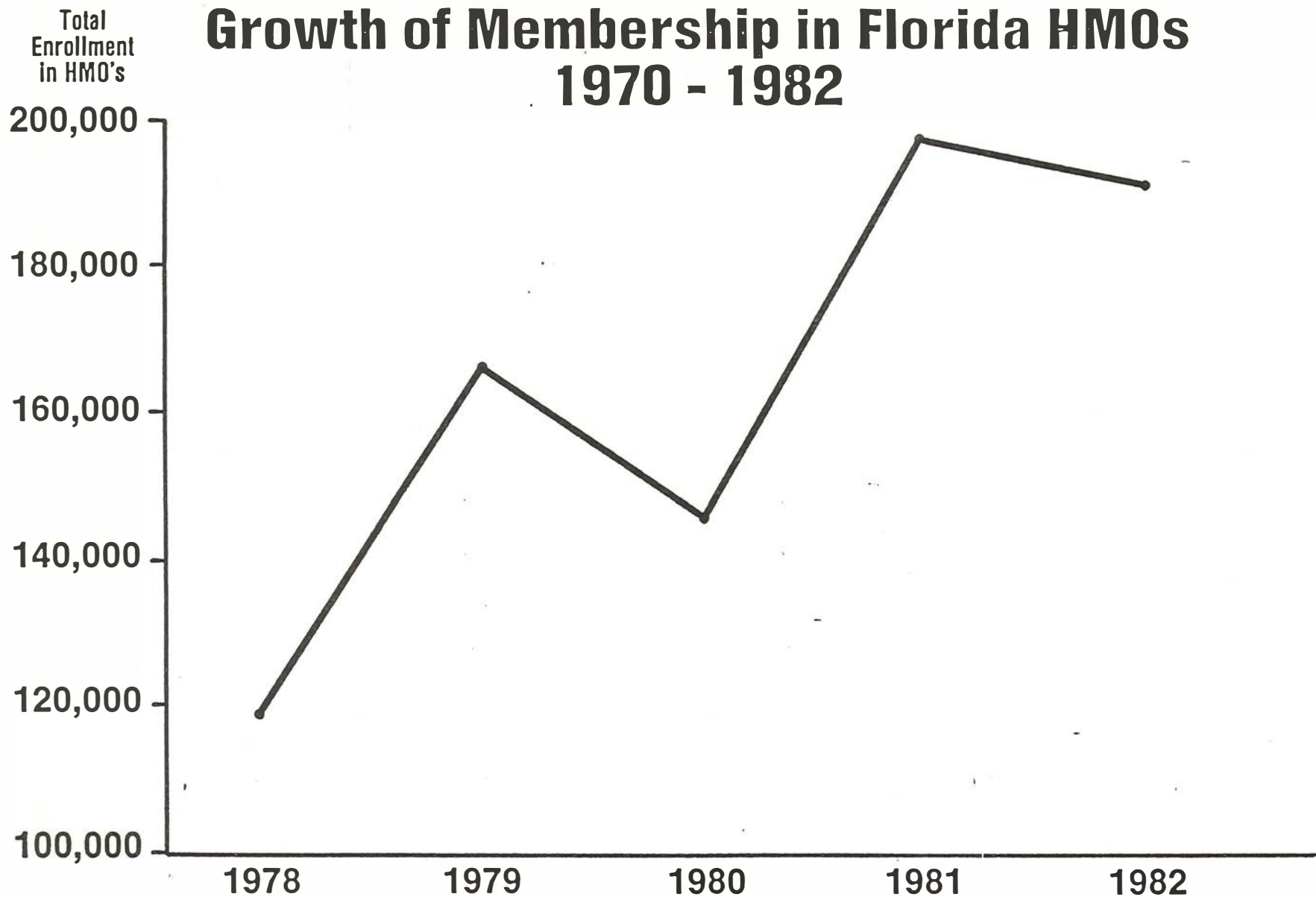
1. Scrutinize employee benefit structures
2. Monitor employee benefit utilization
3. Consider employee health awareness programs
4. Consider alternative delivery systems -- HMOs, PPOs
5. Become active in employer health coalitions

- C. Given opportunity to operate in free marketplace, have the ability to grow and prosper in 1990s and beyond. Confident this will occur -- but will require cooperative effort from everyone: physicians, hospitals, employees, and those who use our services.

Percentage
of 1982
Increase



Growth of Membership in Florida HMOs 1970 - 1982



Source: National HMO Census, 1978 - 1982

Growth of Florida Physician Supply 1970 - 82

Total
Number of
Florida
Physicians

25,000

20,000

15,000

10,000

5,000

1,000

1970

1972

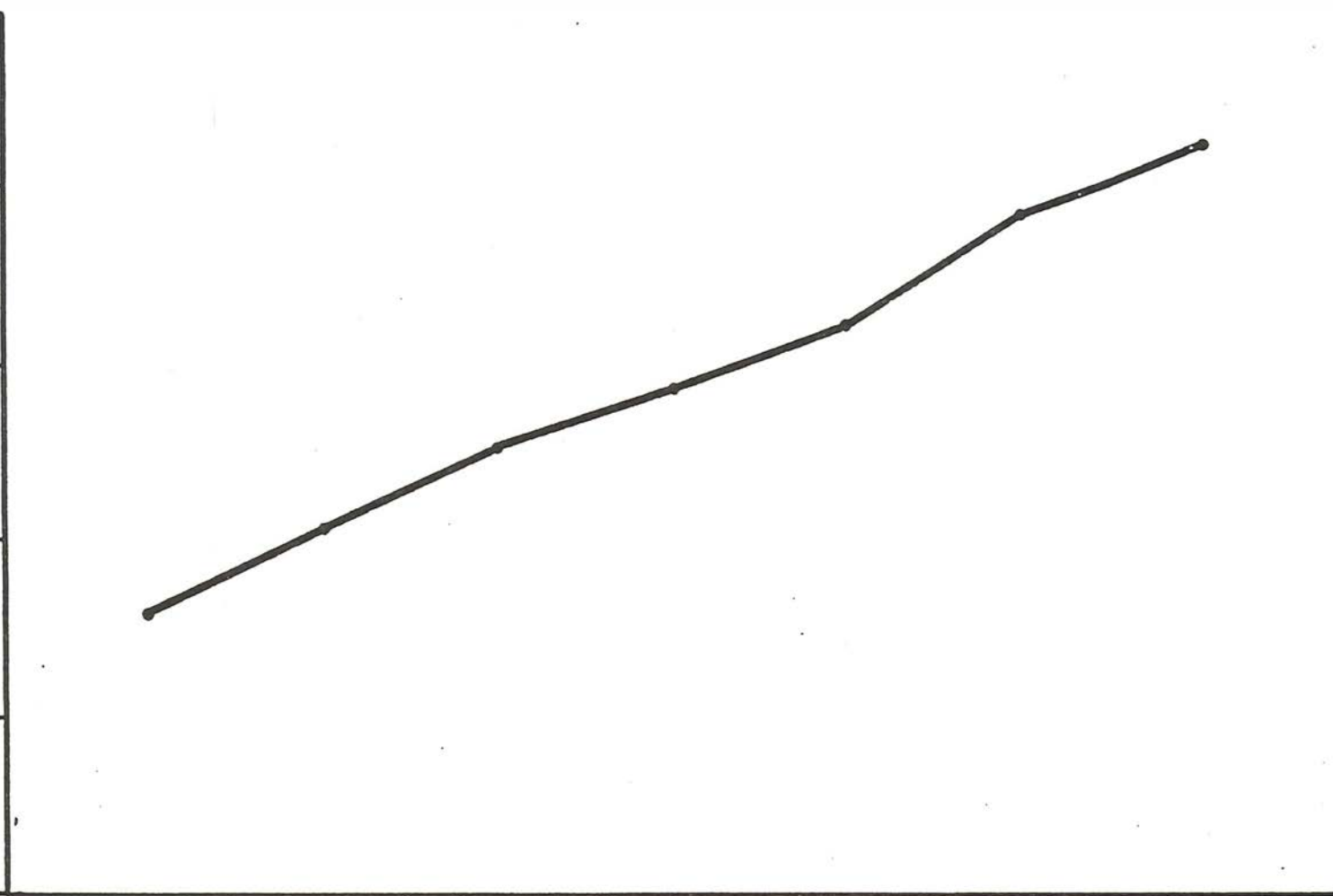
1974

1976

1978

1980

1982



Local Group 1982 Year To Date Weighted Average Rate Increase (Percentage)

Month Rated \ Size	10-24	Mega IV	25-499	500+	Total
<u>1981 Yearly</u>	49.7	86.3	33.3	33.8	39.8
JAN 82	62.2	42.0	32.8	41.4	41.0
FEB 82	53.1	27.2	23.6	18.4	25.7
MAR 82	20.3	37.6	30.5	19.3	27.1
APRIL 82	21.8	39.0	29.5	27.7	28.3
MAY 82	26.2	49.1	33.9	18.1	22.9

* There is a two or three month lag from month rated to effective date.

PLEASE NOTE: SLIDE HAS BEEN PREPARED, BUT HARD COPY NOT AVAILABLE.

Topics

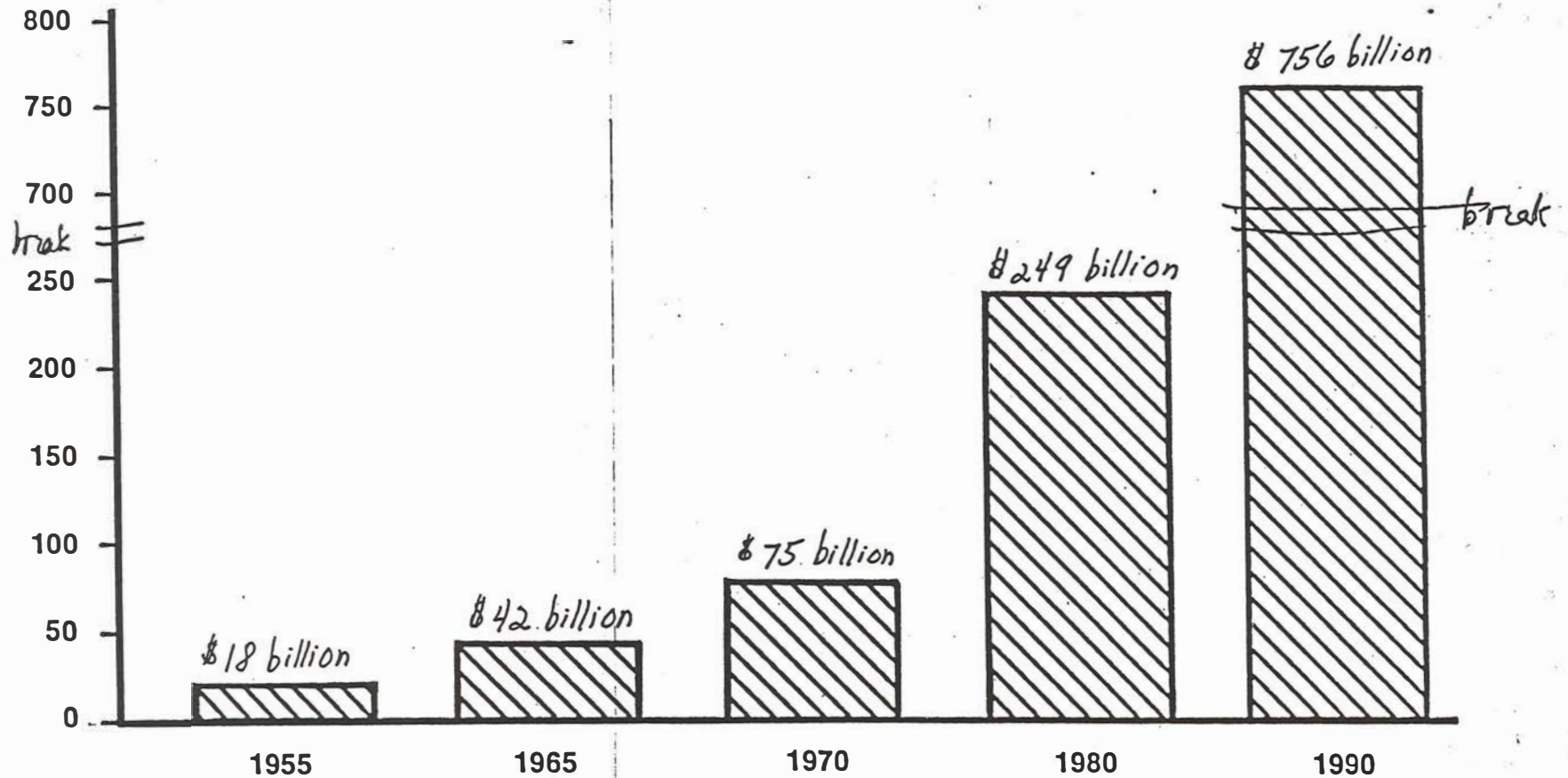
- **Current trends; effects**
- **Regulation/competition**
- **Future developments**

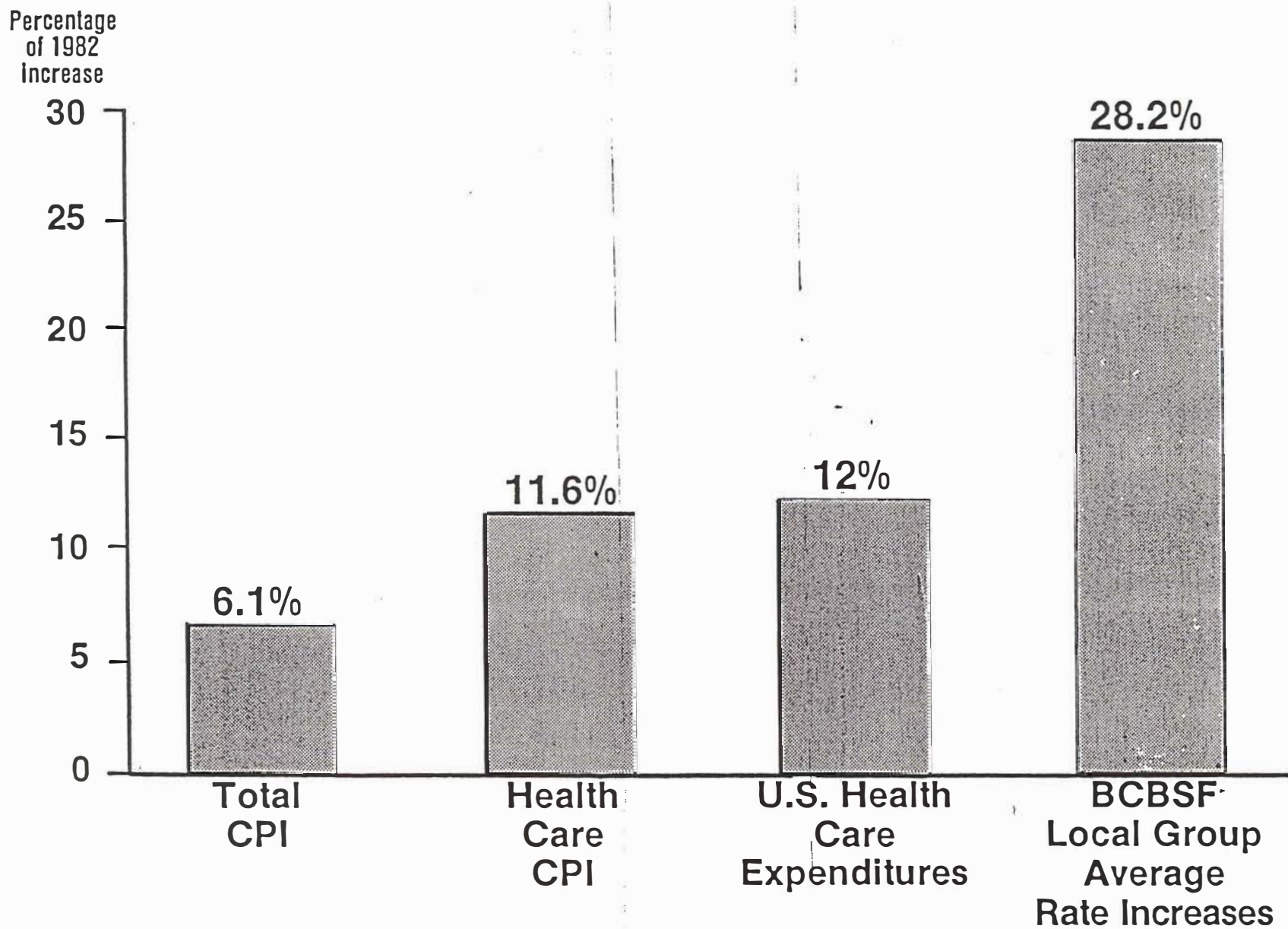
Blue Cross and Blue Shield of Florida, Inc. Profile

- **Community orientation**
- **Public accountability**
- **Relationship with physicians and providers**
- **Non-profit status**

National Health Care Expenditures 1955 — 1990

IN BILLIONS





SLIDE #5

Dimension III

Financial Experience (000)

	<u>1980</u>	<u>1981</u>	<u>1982</u>
Earned Income	\$10,195	\$15,052	\$24,590
Incurred Claims	\$ 6,672	\$12,316	\$22,275
Expense Charges	\$ 2,039	\$ 3,010	\$ 4,078
Underwriting Gain/(Loss)	\$ 1,484	(\$ 274)	(\$ 1,763)

SLIDE #6

Dimension III

1982 Financial Experience (000)

	<u>Region I</u>	<u>Region II</u>	<u>Region III</u>
Premium Income	\$7,374	\$7,274	\$9,941
Incurred Claims Loss Ratio	62.4%	81.9%	117.9%

Average Rate Increase Local Groups

1981	39.8%
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1982*	28.2%
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* 12/81 through 11/82

Federal Legislation

- **1946 — Hill-Burton**
- **1966 — Comprehensive Health Planning Act**
- **1972 — Social Security Amendments**
- **1973 — Health Maintenance Organization Act**

Federal Legislation

(Continued)

- **1974 — National Health Planning Act**
- **1976 — Health Professions Educational Assistance Act**
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Florida Legislation

- **1979 — Health Care Cost Containment Act**
- **1981 — State Health Policy Task Force**
- **1982 — Governor's Task Force on Competition and Consumer Choice**

Regulation

- Anti-competitive
- Inefficient
- Restricts change, innovation

Regulation

(Continued)

- **Encourages higher prices**
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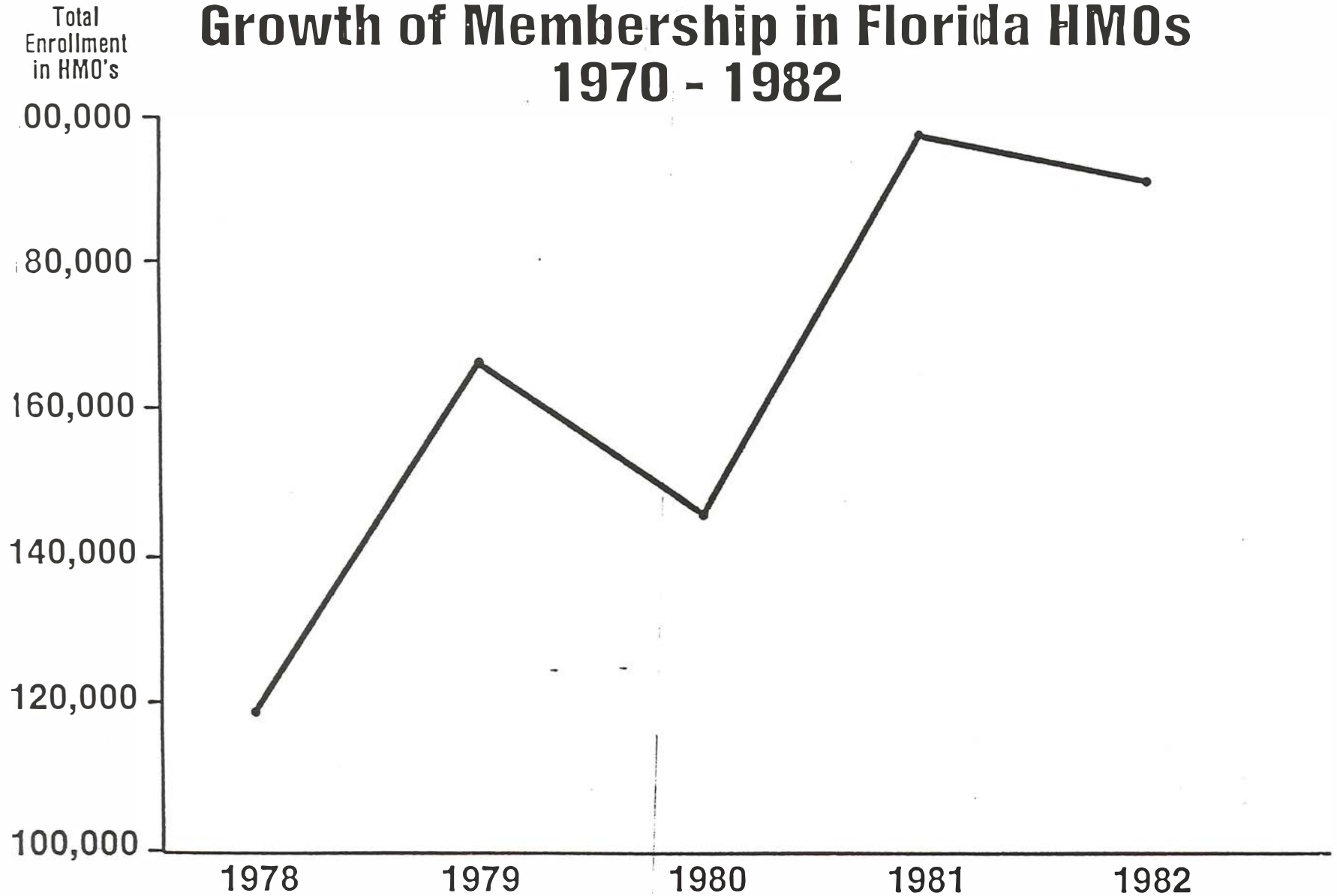
Florida Bed Supply Compared To United States, 1971 - 1981

Year	<i>Florida</i> Beds	<i>U.S.</i> Beds (<i>thousands</i>)
1971	47,590	1,556,000
1972	50,257	1,550,000
1973	51,048	1,535,000
1974	53,504	1,513,000
1975	55,023	1,466,000
1976	53,365	1,434,000
1977	54,854	1,407,000
1978	54,211	1,381,000
1979	56,496	1,372,000
1980	59,056	1,365,000
1981	58,870	1,362,000
Percentage of increase, 1971-81		+23.7 %
Source: Florida Hospital Association		- 12.5 %

Competition

- Efficiency, innovation
- Responsiveness to marketplace
- Cooperative efforts

Growth of Membership in Florida HMOs 1970 - 1982



Source: National HMO Census, 1978 - 1982

SLIDE # ~~13~~ 16

Preferred Provider Organizations

- National & state development
- BCBSF interest

Further Changes

- **Employer coalitions**
- **Rise in self-insurance**
- **Medicare voucher system**
- **Move to overall financial services industry**

Employer Involvement

- **Study benefit structures**
- **Monitor utilization**
- **Health awareness programs**
- **Alternative delivery systems**
- **Employer health coalitions**